

DRAFT

WATER/JPT/MXK/MML/jlj

AGENDA ITEM #4847

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION NO. W-4558
August 25, 2005**

R E S O L U T I O N

(RES. W-4558), DEL ORO WATER COMPANY (DOWC), PINE FLAT DISTRICT (PFD). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$35,715 OR 136% IN 2005.

SUMMARY

By Draft Advice Letter filed on October 26, 2004, DOWC seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2005, this resolution grants an increase in gross annual revenues of \$35,715 or 136%, which is estimated to provide a return on rate base of 12.65%. This resolution also resolves tariff filing issues not previously addressed in the acquisition decision.

BACKGROUND

DOWC acquired Pine Flat Water Company on October 1, 2004, pursuant to Decision (D.) 00-01-018. DOWC has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$37,192 or 139%, in Test Year 2005. The purpose of the rate increase is to recover operating expenses and to provide an adequate rate of return. DOWC's request shows gross revenues of \$26,788 at present rates would increase to \$63,980 at proposed rates.

The present rates became effective on December 13, 1999, as a result of a Consumer Price Index increase pursuant to D.92-03-093, which produced an increase of \$419 or 1.6% in additional annual revenue. The last general rate increase was granted on May 21, 1997, pursuant to Res. W-4039, which authorized a gross revenue increase of \$8,560 or 48.6% additional annual revenue.

Pine Flat Water Company was under an order by the Department of Health Services (DHS) to implement improvements when DOWC acquired the system in 2004. DOWC has requested to receive incentives for PFD as allowed by the Mergers and Acquisitions decision (D.99-10-064) for inadequately maintained systems.

PFD is operated as a district of the Del Oro Corporation owned by Mr. Robert Fortino. PFD serves approximately 200 flat rate connections in the service area located in Pine Flat, Tulare County. Del Oro has other districts serving communities of Ferndale in Humboldt County; Paradise Pines, Magalia, Lime Saddle, and Stirling Bluffs in Butte County; Johnson Park in Shasta County; Country Estates in Kern County; and Pine Mountain in Tulare County.

PFD obtains its water supply from three wells and an interconnection with the adjacent Pine Mountain system. Total water production for 2003 was 10.3 million gallons including 3.8 million gallons purchased from Pine Mountain Water Company. PFD has five storage tanks with a combined capacity of approximately 87,250 gallons. The distribution mains consist of approximately 27,000 feet of two-inch and smaller transite pipe and are in excess of eighty years old.

In Res.W-4039, the Commission ordered the replacement of 3,500 feet of the existing two-inch pipe with six-inch main by the end of 1997. No replacement of mains occurred under the previous owner. DHS has ordered that additional source capacity be developed at PFD. DOWC has been granted authority in D.05-01-047, dated January 27, 2005, to borrow approximately \$500,000 to make improvements to PFD and the adjacent Pine Mountain system. The planned improvements include a new well and pumping plant, a new storage and booster facility, as well as mains replacements.

The PFD system is maintained by Porter Fisher, DOWC's field technician, who also maintains the adjacent Pine Mountain system and the Country Estates system which is approximately 50 miles away.

NOTICE AND PUBLIC MEETING

A notice of the proposed general rate increase was mailed to each customer on November 1, 2004. The Division received seven letters of complaint regarding the proposed rate increase. The complaints dealt primarily with issues surrounding part time residents and the impact of the proposed rate increase on low or fixed income residents. DOWC responded to each letter.

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On December 2, 2004, at 7:00 p.m., a public meeting was held in the utility's service area. The public meeting also included customers from DOWC's adjacent Pine Mountain District. Division representatives explained Commission rate-setting

procedures and DOWC's representative explained the reasons for the proposed increase. DOWC's consultant also provided supporting documents. A representative of DHS made a brief statement about the condition of the system and the current boil water order. The thirty-one people who attended the meeting represented at least six of PFD's two hundred customers. The PFD customers expressed concern that the water rates were increasing faster than inflation. The customers also commented that DOWC's proposals on capital improvements seemed to address some of the worst problems last. Division representatives assured customers that the Commission would take into account all of the customers concerns when authorizing the final rates in the matter.

On June 30, 2005, copies of both the PFD and Pine Mountain District staff reports were mailed to the customers who had requested them at the public meeting. No questions or comments were received by the Division staff.

PROTESTS

There were no formal protests to DOWC's request.

DISCUSSION

The Water Division (Division) made an independent analysis of DOWC's summary of earnings and issued its report in June 2005. Appendix A shows DOWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in DOWC's and the Division's estimates in operating revenues, expenses, and rate base. DOWC was informed of the Division's differing views of revenues, expenses, and rate base and agrees with the Division's findings.

Pine Flat Water Company historically purchased water from the adjacent Pine Mountain Water Company. The need for water transfers from Pine Mountain District to PFD will continue for now and in the near future. DOWC did not account for the transfers in its request. In the last rate case Pine Mountain Water Company was ordered to begin collecting data on water sales to Pine Flat Water Company. The Division examined the data recorded by the previous owner and found that only one year was usable due to missing readings. The Division used this year of data for its recommendation and has credited the Pine Mountain District ratepayers for water transfers to PFD by applying the same rate recommended for metered customers of Pine Mountain District to arrive at \$4,213. The Division recommends an offsetting

charge to PFD. DOWC has assured the Division that meter readings are now being recorded on a consistent basis. As a water utility having fewer than 10,000 connections, DOWC is not subject to the three- year rate case filing schedule required by Public Utilities Code Section 455.2. The Division therefore recommends that DOWC be required to file for new rates in PFD in three years once adequate data has been recorded.

The other major differences in expenses were in the purchased power and materials accounts. For the purchased power account, the Division applied the latest electric rate schedules for Southern California Edison Company to the one complete year of usage data available from the previous owner to determine test year costs. For the materials account the Division escalated the allowance from the previous general rate case (GRC).

DOWC did not provide a rate base calculation. Under Public Utilities Codes 2718-2720, otherwise known as the Public Water System Investment and Consolidation Act of 1997,

“The Commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting.”

In the case of the PFD system, the fair market value was deemed to be the purchased price pursuant to D.00-01-018, adopted by the Commission on January 6, 2000, authorizing the purchase by DOWC. Although DOWC did not acquire the PFD system until October 1, 2004, the purchase price of \$27,500 did not change. The Division used Pine Flat Water Company’s annual report figures and the depreciation adopted in the last GRC (Res. W-4039) to arrive at a net value for the depreciable plant at the time of the October 1, 2004 acquisition of \$0. There is a non-depreciable value of \$2,413 for the land and land rights. Therefore, the Division used the \$27,500 less the \$2,413 value at the time of purchase to arrive at an acquisition adjustment of \$25,087.

Pine Flat Water Company was under an order by the Department of Health Services (DHS) to implement improvements when DOWC acquired the system in 2004. Pursuant to D.99-10-064, in which the Commission set policy regarding Mergers and Acquisitions, such a DHS order qualifies PFD for treatment as “Inadequately Operated and Maintained” (IOM). Under D.99-10-064 the utility acquiring an IOM system is entitled to exercise, for a period of seven years, the following four options:

- A. Establish a memorandum account for expenses associated with unanticipated repairs,
- B. Design rates to recover up to 100% of fixed costs in the service charge,
- C. File for an increase in rates based on the most recent increase in the Consumer Price Index for All Urban Consumers, and

- D. Set rates on the basis of the applicable rate of return on rate base permitted a Class C or a Class D water utility.

Under Incentive D above, DOWC is allowed rates based on the rate of return on ratebase which PFD would be permitted if it remained independent. Since PFD has fewer than 500 connections it would qualify for a rate of return in the range of 12.65% to 13.65% as a Class D utility. The Division recommends the lowest possible rate of return in the range to minimize the rate shock of the current increase and future rate base offsets.

PFD's current rate structure consists of one schedule: No. 2AR, Annual Residential Flat Rate Service, filed in the Pine Flat Water Company tariff book. DOWC has requested in its draft advice letter to establish a metered tariff. The Division recommends that both tariffs be filed in DOWC's tariff book and be named consistently with DOWC's other tariff schedules.

Incentive B above allows DOWC to recover up to 100% of fixed costs in their readiness-to-serve charge. The metered rates shown in Appendix B are designed to recover 100% of the utility's fixed cost. Since no metered data for water sold exists, the Division based the quantity charge rate on water production and an assumption of 10% unaccounted for water. The new rate schedules can be found in Appendix B.

Bill comparisons are shown in Appendix C for flat rates. The adopted quantities and tax calculations are shown in Appendix D.

DOWC has requested an additional special condition in the tariffs to guard against seasonal customers who wish to disconnect for part of the year. It is a well established Commission policy that a water utility's readiness-to-serve costs should be borne equally by year-round and seasonal residents. This report recommends a metered rate and that metering be made available as quickly as possible to customers upon request. The Division recommends adding the following special condition to PFD's metered and flat rate tariffs:

"In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service."

DOWC requested filing of a service area map. The Division investigated and discovered that the map found in the Pine Flat Water Company tariff was not up to

date. The Division recommends that DOWC be authorized to file a map for PFD which reflects the service area as it existed when the system was acquired on October 1, 2004.

COMPLIANCE

PFD is under a Commission order to replace 3,500 feet of two-inch mains with six-inch mains. Having acquired the system on October 1, 2004, DOWC has not had time to adequately address the distribution system problems. There are no other outstanding Commission orders.

FINDINGS

1. The Division's recommended summary of earning (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.
5. DOWC should file for new rates in three years once complete data is available for water production and power usage.
6. Tariff Schedule No. 2AR should be renamed Schedule PF-2 and filed in DOWC's tariff.
7. DOWC should be allowed to add the following special condition to the PFD rate tariffs: "In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service."
8. DOWC should be authorized to file service area maps to reflect the Pine Flat service area as it existed when the system was acquired on October 1, 2004.
9. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Pine Flat District, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively. The effective date of the revised rate schedule shall be five days after the date of filing.
2. Del Oro Water Company, Pine Flat District is authorized to increase its annual revenues by \$35,715 or 136%, based on reasonable rates for 2005.
3. Del Oro Water Company is granted authority to file an advice letter to add service area map to its tariff book to reflect the Pine Flat District service area as it existed when the system was acquired on October 1, 2004.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 25, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

Appendix A

Del Oro Water Company
Pine Flat DistrictSUMMARY OF EARNINGS

Test Year 2005

Item	Utility Estimated Present Rates	Utility Estimated Requested Rates	Branch Estimated Present Rates	Branch Estimated Requested Rates	Recommended Rates
<u>OPERATING REVENUES</u>					
Flat Rates	\$26,788	\$63,980	\$26,228	\$63,980	\$61,943
Metered Rates					
Total Revenue	\$26,788	\$63,980	\$26,228	\$63,980	\$61,943
<u>OPERATING EXPENSES</u>					
Purchased Water	\$0	\$0	\$4,213	\$4,213	\$4,213
Purchased Power	\$6,959	\$6,959	\$6,243	\$6,243	\$6,243
Other Volume Related Expenses	\$0	\$0	\$0	\$0	\$0
Employee Labor	\$15,724	\$15,724	\$14,456	\$14,456	\$14,456
Materials	\$2,000	\$2,000	\$354	\$354	\$354
Contract Work (Excl Water Testing)	\$0	\$0	\$0	\$0	\$0
Water Testing	\$880	\$880	\$880	\$880	\$880
Transportation	\$1,073	\$1,073	\$1,487	\$1,487	\$1,487
Other Plant Maintenance	\$1,161	\$1,161	\$1,568	\$1,568	\$1,568
Office Salaries	\$8,932	\$8,932	\$8,932	\$8,932	\$8,932
Management Salaries	\$3,631	\$3,631	\$3,631	\$3,631	\$3,631
Employee Benefits	\$2,099	\$2,099	\$2,099	\$2,099	\$2,099
Uncollectibles	\$0	\$0	\$0	\$0	\$0
Office Services & Rental	\$809	\$809	\$809	\$809	\$809
Office Supplies and Exp	\$2,046	\$2,046	\$2,046	\$2,046	\$2,046
Professional Services	\$678	\$678	\$678	\$678	\$678
Insurance	\$5,687	\$5,687	\$5,442	\$5,442	\$5,442
Regulatory Comm Exp	\$0	\$0	\$0	\$0	\$0
General Expenses	\$363	\$363	\$363	\$363	\$363
Subtotal	\$52,042	\$52,042	\$53,201	\$53,201	\$53,201
Depreciation Expense	\$0	\$0	\$678	\$678	\$678
Taxes other than income	\$2,935	\$2,935	\$2,838	\$2,838	\$2,838
State Income Tax	\$800	\$800	\$800	\$800	\$800
Federal Income Tax	\$0	\$1,229	\$0	\$969	\$664
<u>Total Deductions</u>	\$55,777	\$57,006	\$57,517	\$58,487	\$58,181
<u>NET REVENUE</u>	-\$28,989	\$6,974	-\$31,289	\$5,493	\$3,762
<u>RATE BASE</u>					
Average Plant	-	-	\$70,013	\$70,013	\$70,013
Average Depreciation Reserve	-	-	\$65,360	\$65,360	\$65,360
<u>Net Plant</u>	-	-	\$4,653	\$4,653	\$4,653
Less Advances	-	-	\$0	\$0	\$0
Contributions	-	-	\$0	\$0	\$0
Plus Working Cash	-	-	\$0	\$0	\$0
Materials and Supplies	-	-	\$0	\$0	\$0
Acquisition Adjustment	-	-	\$25,087	\$25,087	\$25,087
<u>Rate Base</u>	-	-	\$29,740	\$29,740	\$29,740
<u>RATE OF RETURN</u>	-	-	-105.21%	18.47%	12.65%

APPENDIX B
Schedule No. PF-1

ANNUAL GENERAL METERED SERVICE
PINE FLAT DISTRICT

APPLICABILITY

Applicable to all metered water service furnished to the Pine Flat District service area.

TERRITORY

The unincorporated community known as Pine Flat, and vicinity, located about two miles southeast of California Hot Springs, Tulare County.

RATES

		<u>Per Meter Per Month</u>
Quantity Rate:		
For all water, per 100 cu. Ft.....	\$	1.264

		<u>Per Meter Per Month</u>
Annual Service Charge:		
For 5/8 x 3/4 inch meter		\$18.81
For 3/4-inch meter		\$28.21
For 1-inch meter		\$47.01
For 1-1/2 inch meter		\$94.03
For 2-inch meter		\$150.44
For 3-inch meter		\$282.08
For 4-inch meter		\$470.13
For 6-inch meter		\$940.26

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge for water computed at the Quantity Rate.

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12- month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the residents may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods.
2. The established billing cycle for water used is monthly.
3. The opening bill for meter service, except upon conversion from flat rate service, shall be established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customers.
4. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
5. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
6. A late charge will be imposed per Schedule No. LC.

APPENDIX B, Page 2

Schedule No. PF-2

ANNUAL GENERAL FLAT RATE SERVICE

PINE FLAT DISTRICT

APPLICABILITY

Applicable to all flat rate water service furnished to the Pine Flat District service area.

TERRITORY

The unincorporated community known as Pine Flat, and vicinity, located about two miles southeast of California Hot Springs, Tulare County.

RATES

	Per Service Connection Per Year	
3/4 - inch service connection	\$306.65	(I)
1 - inch service connection	\$459.95	(I)
1-1/2 - inch service connection.....	\$613.23	(I)
2 - inch service connection	\$919.78	(I)

Special Conditions

1. All service not covered by the above classifications shall be furnished only on a metered basis.
2. The annual service charge applies to service during the 12- month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the residents may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods.
3. The established billing cycle for water used is monthly. (C)
4. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charges shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.
5. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service. (N)
|
(N)
6. All bills are subject to the reimbursement fee set forth in Schedule No. UF
7. A late charge will be imposed per Schedule No. LC.

APPENDIX C

**DEL ORO WATER COMPANY
PINE FLAT DISTRICT**

**COMPARISON OF RATES
Test Year 2005**

1. Metered Rates

There are no existing metered rates to compare to.

2. Flat Rates

<u>Connection Size</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Present</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
3/4-inch	\$129.84	\$306.65	\$176.81	136.2%
1-inch	\$194.75	\$459.95	\$265.20	136.2%
1-1/2-inch	\$259.65	\$613.23	\$353.58	136.2%
2-inch	\$389.45	\$919.78	\$530.33	136.2%

APPENDIX D

DEL ORO WATER COMPANY
PINE FLAT DISTRICT
ADOPTED QUANTITIES
TEST YEAR 2005

Expenses:

1. Purchased power (Electric)	
Vendor	Southern California Edison Company
Schedule	PA-1 Agricultural and Pumping
Effective Date	April 14, 2005
URG Generation	70.78%
DWR Generation	29.22%
Energy Charge:	
Delivery Rate	\$0.03152
URG Generation Rate	\$0.06514
DWR Generation Rate	\$0.08087
Customer Charge per Meter	\$22.69
Service Charge per HP	\$2.57
KWH Used	50,696
Number of Meters	3
Total Horsepower Billed	9.5
Total Cost	\$6,243
Composite Energy Cost (\$/KWH)	\$0.12315
2. DHS Testing Costs	\$880
DHS Fees	\$0

3. Number of Service Connections:

Metered	0
3/4 inch Flat Rate	200
1 inch Flat Rate	0
1 1/2 inch Flat Rate	1
2 inch Flat Rate	0

4. Adopted tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$61,943	\$61,943
2.	O & M Expenses	\$53,201	\$53,201
3.	Taxes Other Than Income	\$2,838	\$2,838
4.	Depreciation	\$678	\$678
5.	Taxable Income for State Tax	\$5,226	
6.	State Tax	\$800	
7.	Taxable Income for FIT		\$4,426
8.	Federal Income Tax		\$664
9.	Total Income Tax		\$1,464

California Corporate Franchise Rate-Minimum \$800

Federal Income Tax Rate - Only Lowest Tier Applies 15%

5. Expiration of Acquisition Incentives: September 30, 2011

6. 2005 Plant additions included in ratebase: \$3,128